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SUBJECT: Merkel Previews German EU Presidency Agenda

11. SUMMARY: Chancellor Merkel highlighted energy coordination, deregulation, and research investment as key priorities for Germany's EU Presidency next year in two Berlin speeches on May 9 and May 11. However, she described the politically sensitive issue of the EU Constitution as requiring "further reflection," suggesting it would be premature to press for it during Germany's early 2007 Presidency. But Merkel will activate a measure in the draft Constitution to strengthen EU follow up on initiatives. The Chancellor cautioned about further EU enlargement saying the EU must make clear to some countries aspiring to full EU membership that they would not receive it for "the foreseeable future." She also argued the EU's need for economic reform and for addressing energy issues. EU Commission Vice President Guenther Verheugen (SPD), who attended the May 9 Forum, supported Merkel's proposals. German officials say that 2007 elections and political uncertainties in France, the UK, the Netherlands, Italy, and Finland complicate Germany's effort to set ambitious goals for its presidency. END SUMMARY

12. German ministries have begun internal coordination with the Chancellery on themes for Germany's early 2007 EU Presidency. Chancellor Merkel used two major speeches in Berlin to outline her views on European integration and to give a sneak preview of Germany's agenda for its EU presidency in the first half of next year. Speaking at the Europe Forum May 9, an event sponsored by several European public media networks, and at the Bundestag on May 11, Merkel made further development of the EU's internal market the key issue of her presentation. She made clear that she regarded the internal market as both a great historical accomplishment and central piece in the EU's ability to take on the challenges of a globalized market. She noted the

Airbus-Boeing trade dispute and the Commission's challenge to Microsoft on competition as issues that member states could not tackle without the EU framework.

¶3. Merkel stressed the importance of the Lisbon economic reform process. German officials told us the March 2007 summit under the German presidency will include a new step in the Lisbon reform agenda. For the first time, the Commission will issue a "report card" to member countries on needed reforms, based on each country's own reform agendas submitted to the Commission since 2005. Merkel also pledged Germany would meet its pledge for funding research and development at 3 percent of GDP.

EU INSTITUTIONAL REFORM AND ENLARGEMENT

¶4. Addressing concern over the EU's future after voter setbacks in France and Netherlands last year, Merkel argued the "EU was better than its reputation." She said the EU must deliver on promises of growth to renew confidence, noting that many in Germany no longer associate the EU with a prosperous future. In surprisingly direct language, Merkel also called for setting clear limits for the EU's enlargement. She noted the EU must say to certain countries their EU membership is not possible in the foreseeable future, although promises already made must be kept.

¶5. A German Finance Ministry official dealing with the EU said Merkel's speech had to accent limits to EU membership in order to address the EU institutional crisis created by the enlargement to 25 countries. The official said German leaders had mistakenly hailed the enlargement as a success without having achieved the EU institutional reforms that would enable a larger EU to govern itself. The EU and Germany were now paying the high political price of having initiatives like the EU Services Directive and the Constitution suffer setbacks. Anxious voters had balked at these steps as part of venting frustration at apparent EU drift and at increased economic uncertainty they blame on the EU. He said the enlargement had also significantly weakened the Commission. Squabbles among the now numerous Commissioners impeded decisions. Each new EU member sought to assert the importance of his/her Commission portfolio, creating roadblocks. He said prospects for further enlargement were damaged by the "antics" of certain new EU members.

¶6. While limiting further EU membership, Merkel also backed a more vigorous EU Neighborhood Policy that seeks nearly full integration into EU economic structures. She said the Neighborhood Policy needs more political aims, making it "more than just a free trade relationship." With reference to Turkey's chances for membership she said, "those who begin the negotiation process for accession together (Turkey and Croatia) do not automatically have to enter the EU together," an apparent reference to the overwhelming rejection of Turkish EU membership by her CDU party.

EU CONSTITUTION

¶7. Merkel reportedly reduced her ambition to promote the EU Constitution during the German presidency. In her Berlin speeches, she called only for further reflection among member states about the Constitution, while emphasizing the EU's earnest need for this institutional reform. Chancellery and other advisors reportedly persuaded Merkel that major political uncertainties in key EU member states, including France's early 2007 election, would impede a more ambitious agenda for promoting the new constitution. Besides France, officials said political leadership issues would affect the UK, Italy, the Netherlands, and Finland in 2007, thus preventing Merkel from enlisting vital allies for a Constitution (and other reforms) during the German Presidency.

¶8. While cautioning against hasty renewal of a ratification process for the Constitution, Merkel wishes to launch a process in 2007 for gradually building support for a constitution. According to German officials, Merkel will

"de facto" activate a provision in the stalled Constitution that calls for continuity between EU Presidencies by consolidating their agendas. According to the Finance Ministry, Germany has already begun working with Portugal and Slovenia to craft a common EU Presidency agenda that would encompass the 18 months of all three countries' terms through mid-2008.

ENERGY

¶9. Merkel highlighted the need to integrate energy security issues into Germany's and the EU's foreign and security policies. By the time of the spring summit in 2007, the EU Council will present a report on a coordinated EU energy policy. Merkel summed up the EU members' problem as the need to recognize: a common energy dependency, a common responsibility for secure energy supplies, and a need to cooperate for access to energy supply. The EU will have to find a way of ensuring supply without compromising its foreign policy human rights principles. Merkel alluded in her speech to the pressures of competition from China for raw material imports.

¶10. Although Merkel announced a "common EU energy policy" as a goal, the German response to the EU's paper on energy policy in February had been to minimize the authority given to the Commission over energy diversification and supply. German officials believe energy policy should largely remain a member state prerogative. German officials told us the Merkel coalition would look to continued discussions in the European Council on coordinating energy policies rather than an "integration" of energy policy in the Commission.

¶11. Merkel appealed for improved cross-border power line infrastructure, pointing to the many border choke points where too little current can pass between EU countries. She noted that Germany can send surplus power to Italy only via transmission through France, which adds a corresponding cost. Merkel also called for acceptance of "European champions" in industry, implicitly backing the cross-border takeover bid by Germany's Eon for Spain's Endesa. According to a German Finance Ministry official, Merkel thus signaled Germany's confidence that capital market forces would prevail in resolving recent EU "investment protectionism," reflected by Spain's and France's steps to prevent takeover bids in the energy sector.

DEREGULATION

¶12. Chancellery officials say Merkel will press for EU deregulation as a German Presidency theme. Merkel ironically noted in her May 9 speech that, in its 50 year existence, the EU had never abolished a regulation. She called for the introduction of the "discontinuity rule" in the European Parliament (legislative initiatives could not be transferred from one elective term to the next), which would automatically put the brakes on regulatory activity. The German auto and chemical industries have frequently complained about inconsistent EU regulations that mandate tougher safety and environmental standards without regard to cost and other burdens. Chancellery officials have told us they would seek more fine-tuning of the REACH directive on safety of chemical substances. In her May 9 speech, Merkel cited the EU Parliament's effective compromises on the REACH text, praising the Parliament's role in strengthening the EU's democratic process. She noted EU parliamentarians carefully weighed the impact of the REACH directive on their home district industries as they considered ways to make the compromise draft compatible with industry interests. Merkel specifically greeted the presence of EU Commission Vice-President Gunther Verheugen in her May 9 audience, emphasizing her support for Verheugen's goal of eliminating the EU's excessive or contradictory regulations.

¶13. COMMENT: The German Presidency will profile Merkel's EU leadership role. EU Commission Vice President Guenther Verheugen (SPD) endorsed many of her proposals and called for more leadership in the EU, pointing out that the

political situation in other major EU member countries will thrust Merkel into a leadership position in the coming years.

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